Manitoba

Annual Report 1986 - 87

Manitoba Development Corporation

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MANITOBA DEVELOPMENT CORPORATION

Honourable J.A. Ernst
Minister Responsible for the Administration
of The Development Corporation Act
Room 358, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Ernst:

In accordance with the provisions of Part I and Part II of The Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1987.

Respectfully submitted on
behalf of the Board of Directors.

H.J. Jones,
Chairman and General Manager.

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Report of the Chairman and General Manager

The financing activities of the Manitoba Development Corporation under Part I of the Development Corporation Act were suspended in 1977 apart from the provision of loan commitments and chartered bank guarantees for Flyer Industries Limited, as has been reported in previous years.

During the fiscal year ended March 31, 1987, the divestiture of Flyer Industries Limited to B.V. Carrosseriefabrieken den Oudsten en Zonen on April 10, 1986 occurred after various options and opportunities were pursued by the Government of Manitoba.

The diverstiture was successfully completed on July 15, 1986 and the company was renamed New Flyer Industries Limited.

At the time of the divestiture the Corporation reported that the overall costs of the divestiture would be approximately $100 million including the write-off of the existing shareholdings at that time, plus all estimated costs for M.D.C.'s ongoing involvement to satisfy the terms and conditions of the Share Purchase Agreement, including the provision of chartered bank guarantees, guarantees for bonding commitments, loans for technology transfer and training. In addition, the Manitoba Development Corporation and the Province of Manitoba are obligated to attend to the previous warranty commitments of Flyer Industries Limited and continue that commitment until these warranties expire.

Apart from the Flyer divestiture under Part I of the Development Corporation Act as at March 31, 1987, the portfolio was being reduced in a satisfactory manner with a balance as at March 31, 1987 of $7,297,123 as compared to $7,980,085 at the previous year-end.

Activities under Part II of the Development Corporation Act are initiated and directed by Orders-in-Council and the Corporation has taken on an agency role in monitoring and administering various programs delivered initially by a variety of government departments.

Among the government activities continued by the Corporation during the year under review were:

1. Administration and monitoring of the Destination Manitoba Program which provided loan assistance to capital projects related to development and expansion of rural tourist facilities.
2. The administration and monitoring of Development Agreements and other forms of financial assistance provided under the Manitoba Jobs Fund program.
3. The monitoring and administration of the loan portfolio of the Manitoba Interest Rate Relief Program for Small Business.
4. The administration of loans under the New Tourism Agreement.
5. The administration of the Manufacturing Adaptation Program loan portfolio.

The outstanding balance of loans under Part II of the Development Corporation Act respecting the above mentioned programs totals $27,996,319 as at March 31, 1987.

The March 31, 1987 statements, like the March 31, 1986 statements, were qualified by the Provincial Auditor to the extent that in their view, this Corporation had not been recovering costs for administering a certain program under Part II of the Development Corporation Act. This issue has been addressed.

I wish to extend my sincere appreciation to the Directors of the Manitoba Development Corporation, whose input and overall guidance and counsel were invaluable to M.D.C. and myself, particularly regarding the very difficult and time consuming negotiations with respect to the divestiture of Flyer Industries Limited. I extend my thanks as well to the industrious and efficient staff of M.D.C. in undertaking an important role in the provision of financial assistance to a variety of client groups.

Hugh Jones,
Chairman and General Manager.

Directors and Officers at March 31, 1987

Board of Directors

Hugh Jones, Chairman and General Manager
Angus Bramadat
Oscar Carbonell
Joan Cox
Walter Kramble
Ralph Nault
Floyd Williston

Officers

Hugh Jones, Chairman and General Manager
Greg M. Goodwin, Assistant General Manager and Secretary
Wilfred Chiswell, Manager of Finance

Manitoba

Manitoba Development Corporation

Report of The Provincial Auditor's Office

We have examined the financial statements, being Exhibits A to C and Schedules 1 to 5, of the Manitoba Development Corporation for the fiscal year ended March 31, 1987. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As set out in note 4 to the financial statements, the Corporation does not recover administrative costs for its participation in the Jobs Fund Development Agreement Program. Part II of The Development Corporation Act and Section 7 of Revised Regulation D60-R1 provide that the Corporation shall charge a management fee which shall be equivalent to its estimated expenses of acting on behalf of the Government of Manitoba. The Corporation has not charged a management fee for the operation of the Jobs Fund Development Agreement Program or for assistance provided to corporations under Part II of The Development Corporation Act. The effect of this is to understate its accounts receivable and to overstate the deficit by an estimated $300,000 (1986-$200,000) and to understate recoveries from the Province of Manitoba and the excess of revenue over expenditure for the year by an estimated $100,000 (1986-$100,000).

In our opinion, these financial statements, except for the exclusion of the estimated management fee as described in the preceding paragraph, present fairly the financial position of the Manitoba Development Corporation as at March 31, 1987 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements applied on a basis consistent with that of the preceding year.

February 19, 1988,
Winnipeg, Manitoba.

F.H. Jackson, C.A.,
Provincial Auditor

Exhibit A
Manitoba Development Corporation

Balance Sheet

As at March 31, 1987 (with 1986 figures for comparison)

	1987			1986
	Part I	Part II	Total	Total
Assets				
Bank	$ 238,312	$ —	$ 238,312	$ 57,258
Trust funds held	—	815	815	28,316
Short term deposits	—	—	—	9,091,854
Accounts receivable	22,562	—	22,562	252,992
Due from the Province of Manitoba (note 3)	7,805,582	—	7,805,582	234,412
Loans receivable, Schedule 1	7,297,123	19,886,868	27,183,991	25,976,245
Equity investments, Schedule 2	—	5,510,239	5,510,239	12,154,000
Properties held for resale at lower of cost or estimated realizable value	—	—	—	126,578
Office furniture & equipment at cost less accumulated depreciation $55,338 (1986 - $52,576)	27,137	—	27,137	7,077
	$15,390,716	$25,397,922	$40,788,638	$47,928,732
Liabilities				
Accounts payable	$ 605,408	$ —	$ 605,408	$ 92,462
Interest payable	—	839,869	839,869	657,946
Due to Destination Manitoba	—	—	—	25,000
Provision for divestiture costs (note 6)	14,685,851	—	14,685,851	--
Due to Communities Economic Development Fund (note 2(d))	215,457	—	215 457	392,644
Allowance for loss on investment in Flyer Industries Limited, Schedule 3	—	—	—	23,961,074
Advances from the Province of Manitoba	—	24,558,053	24,558,053	29,440,950
	15,506,716	25,397,922	40,904,638	54,570,076
Shareholders' Equity				
Capital Stock: Authorized & Issued — 500,000 shares @ 100 each	50,000,000	—	50,000,000	50,000,000
Deficit, Exhibit B	(50,116,000)	—	(50,116,000)	(56,641,344)
	(116,000)	—	(116,000)	(6,641,344)
	$15,390,716	$25,397,922	$40,788,638	$47,928,732

Approved on behalf of the Board:

Director

Director

Exhibit B
Manitoba Development Corporation

Statement of Deficit

For the year ended March 31, 1987 (with 1986 figures for comparison)

	1987	1986
Balance — beginning of year	$56,641,344	$43,554,788
Transfer from revenue and expenditure, Exhibit C	(6,525,344)	13,086,556
Balance — end of year — Exhibit A	$50,116,000	$56,641,344

Exhibit C
Manitoba Development Corporation

Statement of Revenue and Expenditure

For the year ended March 31, 1987 (with 1986 figures for comparison)

	1987	1986
Revenue:		
Interest and fees:		
Loans and guarantees — Part I	$ 1,261,006	$ 1,353,114
— Part II	1,875,343	736,057
Term deposits	311,896	1,107,257
Administration fees earned	19,272	—
	3,467,517	3,196,428
Rental income — Net	5,581	6,107
Recoveries — Province of Manitoba (note 4)	104,909	141,115
Profit on sale of property	215,703	—
	3,793,710	3,343,650
Expenditures:		
Interest — Province of Manitoba — Part II	1,875,343	736,057
Salaries and benefits	321,796	254,105
Other expenses	309,149	362,210
Administration — Communities Economic Development Fund (note 2(d))	—	80,000
	2,506,288	1,432,372
Sub-Total	1,287,422	1,911,278
Extraordinary Items:		
Provision for losses on investments, Schedule 3	(23,628,164)	(14,386,133)
Recovery from the Province of Manitoba	29,633,037	—
Excess of Revenue over Expenditure before CEDF subsidy	7,292,295	(12,474,855)
Subsidy to Communities Economic Development Fund	(766,951)	(611,701)
Excess of revenue over expenditure, transfer to Deficit, Exhibit B	$6,525,344	$(13,086,556)

Schedule 1
Manitoba Development Corporation

Summary of Loans Receivable

As at March 31, 1987 (with 1986 figures for comparison)

	1987	1986
Part I:		
Loans made prior to suspension of activities (note 1)	$ 7,297,123	$ 7,980,085
Part II:		
Loans receivable:		
General	$ 3,728,833	$ 3,912,311
Jobs Fund	24,267,486	14,083,849
	27,996,319	17,996,160
Less: Provision for forgiveness and doubtful accounts	(8,109,451)	
	$19,886,868	$17,996,160
Loans receivable less provision for forgiveness and doubtful accounts, Exhibit A	$27,183,991	$25,976,245

Schedule 2
Manitoba Development Corporation

Summary of Equity Investments

As at March 31, 1987 (with 1986 figures for comparison)

	1987	1986
Part I:		
William Clare (Manitoba) Ltd.:		
100 common shares, nominal value	$ —	$ 1
Flyer Industries Limited, at cost: (Note 6)		
9,682,000 preferred shares	—	9,682,000
8,000,000 subordinate preferred shares	—	8,000,000
552,563 common shares	—	16,750,106
Loans receivable	—	7,280,874
Saunders Aircraft Corporation Limited Receivership account (note 5d)	100	100
	100	41,713,081
Allowance for losses, Schedule 3	(100)	(41,713,081)
Equity investments, less allowance for losses, Exhibit A	$ —	$ —
Part II:		
A.E. McKenzie Co. Ltd. at cost:		
12,154,000 preferred shares	$12,154,000	$12,154,000
Allowance for losses, Schedule 3	(6,643,761)	—
Equity investment, less allowance for losses, Exhibit A	$5,510,239	$12,154,000

Schedule 3
Manitoba Development Corporation

Allowance for Losses on Investments

For the Year Ended March 31, 1987

	March 31 1986	Divestiture Costs (Schedule 4)	Current Provision (Recovery)	March 31 1987
Part I:				
Equity investments and related loan receivable	$41,712,981	$40,712,980	$(1,000,000)	$ —
Receivership account	100	—	—	100
Additional loss on investment in Flyer Industries Limited	23,961,074	48,589,238	24,628,164	—
	$65,674,155	$89,302,218	$23,628,164	$ 100
Part II:				
A.E. McKenzie Co. Ltd.	$ —	$ —	$ 6,643,761	$6,643,761

Schedule 4
Manitoba Development Corporation

Statement of Divestiture Costs of Flyer Industries Limited (Note 6)

For the Year Ended March 31, 1987

Investment Losses:		
Write off of shares	$34,432,106	
Write off of loan receivable, March 31, 1986	7,280,874	
	41,712,980	
Less: Proceeds from sale of shares	(1,000,000)	
Loss on investment, schedule 3		40,712,980
Acquisition Costs, July 15, 1986:		
Liabilities assumed	13,368,068	
Less: Assets acquired	(12,905,144)	
Loss on acquisition		462,924
Other Costs:		
Write down of assets to realizable value	5,028,306	
Bank guarantee	19,959,399	
Outstanding cheques	3,450,030	
Warranty obligations	15,057,908	
Fixed asset acquisitions	4,948,903	
Write off of loans and interest	3,815,348	
Purchase of minority shares	332,522	
Severance payments and consultations	1,292,878	
Insurance	516,636	
Occupancy Costs	286,137	
Professional fees	460,000	
Equipment removal	230,000	
Inventory management	300,000	
Sundry	191,229	55,869,296
		97,045,200
Less Other Proceeds:		
Sale of fixed assets	3,325,000	
Proceeds from work-in-process	3,016,890	
Lease proceeds	1,365,000	
Sundry	36,092	(7,742,982)
Net divestiture costs of Flyer Industries Limited, Schedule 3		$89,302,218

Schedule 5
Manitoba Development Corporation

Report of Assistance Granted or to be Granted

For the year ended March 31, 1987

Assistance Approved Under Part I of the Development Corporation Act	
Flyer Industries Limited	
Loan — Interest Rate 9-1/2% — 6 month term	$3,000,000
New Flyer Industries Limited	
Guarantee — 5 year term (reducing)	$8,000,000
Assistance Approved Under Part II of the Development Corporation Act	
Jobs Fund Loan Program:	
New Flyer Industries Limited	
Loan — Interest 0% forgivable — 42 month term	$3,605,882
Grant —	$1,000,000
Carnation Foods Company Ltd.	
Loan — interest rate 0% forgivable	$1,500,000
Guer-tin Bros. Polymers et al	
Loan — interest rate 0% — 5 yr. term	$ 450,000
North Portage Development Corporation	
Loan — interest 0% — 10 yr. term	$1,800,000
Palliser Furniture Ltd.	
Loan — interest 0% — 5 yr. term	$2,000,000
Simon Day Ltd.	
Guarantee — 2% fee — 2 year term	$ 302,017 U.S.
— 2% fee — 6 month term	$ 508,588 U.S.

Canada/Manitoba Tourism Development Agreement:

	Interest Rate	Term	Amount
Elkhorn Ranch & Resort Ltd.	0%	Forgivable	$500,000
Elkhorn Ranch & Resort Ltd.	6%	12 years	$350,000
Nejalini Lodge Ltd.	0%	Forgivable	$175,000
Nejalini Lodge Ltd.	6%	10 years	$175,000

Manufacturing Adaptation Program

57431 Manitoba Ltd.:	
Loan — Interest Rate is Crown Corporation Borrowing Rate Less 2% — 7 Year Term	$ 40,000
Village Sportswear Ltd.	
Loan — Interest Rate is Crown Corporation Borrowing Rate Less 2% — 7 Year Term	$ 30,000

Manitoba Development Corporation

Notes to Financial Statements

For the year ended March 31, 1987

1. Nature of Operations and Economic Dependence:

   The Corporation provides loans and loan guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except since then, further guarantee and loan commitments have been made on the direction of the Province of Manitoba. The Corporation is dependent on the Province of Manitoba for its continued operations.

2. Significant accounting policies:

   (a) Losses under Part I are charged against operations of the Corporation but losses under Part II are the responsibility of the Province. Part II losses and provisions for losses are charged directly against advances received from the Province.

   (b) The accural basis of accounting is followed except for the accounting for pension costs, for divestiture costs of Flyer Industries Limited, and for loans provided by the Corporation. Pension costs are charged to operations as incurred (see note (c) below), divestiture costs of Flyer Industries Limited include provision for future anticipated costs (see note 6) and approved loans are recorded when disbursed (see note 5(b)).

   (c) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. Such payments are charged to operations as incurred and provision is not made in the accounts to fund current or past service obligations to the Superannuation Fund. On the basis of an actuarial report, the unfunded liability for the Corporation's employees amounted to $291,975 as at December 31, 1987, ($246,073 as at December 31, 1986).

   (d) The Manitoba Development Corporation is jointly administered with the Communities Economic Development Fund (CEDF). At the year end, common administrative expenses are reviewed and allocated between CEDF and the Corporation on a proportionate basis as determined by officials of CEDF and the Corporation. The difference between the administrative expenses paid by the Corporation and the prorated administrative expenses are reflected as either a recovery of administrative expenses or as a reimbursement to CEDF for the Corporation's share of common administrative expenses. In fiscal 1987 the difference was not significant and therefore a recovery was not required.

   (e) Office furniture and equipment is depreciated at 10% on a straight line basis.

3. Due from the Province of Manitoba:

   The amount due from the Province represents the recoverable balance outstanding for costs or fees incurred by the Corporation on behalf of the following operations:

	1987	1986
The Pas Forestry Complex, (note 5(c))	$ 70,729	$204,815
Destination Manitoba	35,226	12,346
Manitoba Interest Rate Relief Program	11,956	17,251
Flyer Industries Ltd. Divestiture, note 6	7,633,037	
Tantalum Mining Corporation of Canada	54,580	—
Other	54	—
	$7,805,582	$234,412

4. Recoveries from the Province of Manitoba:

The Corporation is entitled to recover administrative costs for all Part II programs. The Corporation does not completely recover administrative costs for its participation in the Jobs Fund Development Agreement Program. These costs are estimated to be $100,000 for the current fiscal period (1986 — $100,000). During the year the Corporation recovered administrative costs or service fees for administering the following programs:

	1987	1986
Tourism Agreement	$ 4,600	$ —
Destination Manitoba	42,148	56,199
Manitoba Interest Rate Relief Program	58,161	84,916
	$ 104,909	$ 141,115

5. Contingent Liabilities and Commitments:

(a) Bank Guarantees, Part II:

The Corporation has provided guarantees under the Jobs Fund Loan Program as follows:

	1987	1986
Gravure Graphics Ltd.	$1,225,000	$1,225,000
Rock Lake Oil Seeds (1985) Holding Company Ltd.	—	2,250,000
Simon Day Ltd.	794,179 U S	—

(b) Commitment, Part II:

	1987	1986
Undisbursed balances of approved loans:		
Destination Manitoba	$ 32,000	$ 202,462
Tantalum Mining Corporation of Canada Limited	350,500	350,500
Jobs Fund Loan Program	2,854,986	4,189,651
Canada Manitoba Tourism Agreement	925,000	—
	$4,162,486	$4,742,613

(c) The Pas Forestry Complex:

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

The remaining funds in the Receiver's accounts will be transferred to the Province when the Receiver settles all outstanding legal issues.

(d) Saunders Aircraft Corporation Limited:

Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation on May 20, 1976. The Manitoba Development Corporation has indemnified the Receiver-Manager for expenses, losses or damages incurred.

Funds realized from the receivership actions, less an estimated amount retained by the Receiver-Manager to cover future administrative costs, are remitted to the Province. Funds in excess of those required by the Receiver-Manager are payable to the Province.

The Receiver-Manager has advised the Manitoba Development Corporation that the final outstanding account has been realized by a court settlement in the amount of $200,000 less legal fees. When this transaction is finalized, the Receiver-Manager will apply to the courts to be discharged.

(e) New Flyer Industries Limited:

Under the terms of the Divestiture Agreement described in Note 6, the Manitoba Development Corporation is contingently liable for and the Province of Manitoba is ultimately responsible for the following:

i) Bank Guarantee

A Canadian chartered bank has been provided with a guarantee of the amount outstanding under a line of credit established by BV Carrosseriefabrieken den Oudsten en Zonen to a maximum of $8 million. The guarantee shall be reduced by $1 million on each July 15, 1988 until July 15, 1991, at which time the guarantee shall be reduced to zero. There are no advances against the line of credit.

ii) Performance Bonds

MDC has agreed to provide guarantees of performance bonds up to a maximum of $30 million for contracts to be undertaken by New Flyer Industries in 1988 and 1989. Subsequent to year-end, $1.5 million of that commitment has been issued by means of guarantees of performance bonds.

iii) Litigation

The Corporation has assumed all of Flyer Industries Limited litigation and related proceedings outstanding prior to and as at the date of sale. In certain instances, the Corporation is similarly responsible for such proceedings arising after the date of sale.

There are seven such claims that remain to be settled. The outcome of these claims and estimated exposure to the Corporation are unknown but are not expected to have a material effect on the operations and financial position of the Corporation.

Until December 31st, 1986, MDC participated in the costs of public liability insurance coverage for New Flyer Industries Limited and the relevant policy was so endorsed. Subsequent to December 31st, 1986, public liability insurance has not been in place pending a review, on an on-going basis, of market availability and reasonableness of cost. Claims which might arise in this regard may or may not be covered by prior years' insurance policies.

iv) Pension Fund

An actuarial valuation is being prepared relative to the pension fund for Flyer Industries Limited at July 15, 1986. The results are unknown but are not expected to create a significant unfunded liability.

v) Other Contingencies

In addition to the costs outlined in Note 6, other contingencies may arise as the Corporation proceeds with Flyer divestiture. The nature and magnitude of such contingencies are not determinable.

6. Flyer Divestiture:

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabrieken den Oudsten en Zonen by which MDC divested itself of its interest in Flyer Industries Limited. Under the terms of this agreement, the shares were sold to B.V. Carrosseriefabrieken den Oudsten en Zonen for $1,000,000 and MDC contracted to receive certain revenues and pay certain costs as described in Schedule "4". The net cost of this divestiture is estimated to be $103 million allocated as follows:

MDC (Schedule 4)	$89,302,218
Province of Manitoba	14,065,000
Total	$103,367,218

The divestiture costs of $89,302,218 related to MDC are comprised of payments, net of receipts, to March 31, 1987 of $74,616,317, estimated future payments of $18,109,439, estimated future receipts of $5,863,588 and a contingency provision of future warranty claims and other costs of $2,440,000.

7. Trust Funds Held — Seattle Escrow:

Under the terms of the divestiture agreement described in note 6, MDC assumed responsibility from Flyer Industries Limited to continue joint administration with the Municipality of Metropolitan Seattle of a trust agreement arranged for the completion of outstanding warranty claims of the Municipality of Metropolitan Seattle. The balance assumed in the trust account established through this agreement represents the undisbursed portion of funds previously transferred to the account by Flyer Industries Limited. This trust account has not been reflected in the balance sheet. A summary of transactions in the trust account since July 15, 1986 is as follows: (U.S. Funds):

Balance assumed, July 15, 1986	$365,497
Interest revenue	11,768
	377,265
Warranty Payment	(47,582)
Balance, March 31, 1987	$329,683

Any unused funds remaining after warranty completion will be the property of MDC. MDC is not liable for any costs beyond the balance in the trust account.

8. Comparative Figures

1986 comparative figures have been restated where necessary to conform with the 1987 financial statement presentation.